

Exhibit K

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STATE OF ALASKA

State of Alaska
Regulatory Commission of Alaska

THE REGULATORY COMMISSION OF ALASKA

Before the Commissioners:

Mark K. Johnson, Chair
Kate Giard
Dave Harbour
James S. Strandberg
G. Nanette Thompson

In the Matter of the Petition by GCI)
COMMUNICATIONS CORP. d/b/a)
GENERAL COMMUNICATION, INC. and)
GCI for Arbitration Under Section 252 of the)
Communications Act of 1996 with the)
MUNICIPALITY OF ANCHORAGE d/b/a)
ATU TELECOMMUNICATIONS a/k/a ATU)
TELECOMMUNICATIONS for the Purpose of)
Instituting Local Competition.)

U-96-89

PREFILED DIRECT TESTIMONY OF KENNETH L. SPRAIN
ON BEHALF OF ACS OF ANCHORAGE

Qualifications and Experience

1. Q. Please state your name and business address.

A. My name is Kenneth L. Sprain. My business address is 600 Telephone
Avenue, Anchorage, Alaska, 99503.

1 2. Q. By whom are you employed and in what capacity?

2 A. My employer is Alaska Communications Systems (ACS). I am employed
3 as the Senior Vice President of Operations, a position I have held since May
4 19, 2003.
5

6 3. Q. Please summarize your qualifications and experience.

7 A. After serving in the U.S. Navy, I became employed by RCA Service
8 Company in Anchorage as a communications technician. Seventeen months
9 later I became a site supervisor and then served for the next 32 years in
10 various management positions in the succeeding companies. I was
11 Southeast District Manager for RCA Alascom, Anchorage District Manager
12 for Alascom, Division Vice President for PTI Communications, Midwest
13 Region Vice President for PTI Communications and CenturyTel, and Vice
14 President for Operations Planning, CenturyTel. During this time I managed
15 companies in Alaska, Washington, Idaho, Wyoming, Nevada, Colorado,
16 Montana, Wisconsin, Minnesota, Iowa, Michigan, and Ohio. I retired from
17 CenturyTel in July of 2000. To my recollection, I have never testified
18 before this Commission. However, I have testified in some of the states
19 noted above, on subjects ranging from payphones to alternative regulation
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1 plans. Even without testimony, I always worked with the staffs and
2 commissions in solving problems and setting direction.
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5 Purpose of Testimony

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7 4. Q. What is the purpose of your testimony?

8 A. I am providing testimony to support the idea that providing direct
9 operations support system (OSS) access to a competitive local exchange
10 carrier (CLEC) is beneficial to both the CLEC and ACS. I am also
11 providing a historical perspective on the Anchorage telephone market.
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14 OSS

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16 5. Q. Why do you believe OSS access is advantageous to both GCI and ACS?

17 A. OSS direct access will provide GCI the opportunity to process their own
18 orders more efficiently and in a manner that allows them to control directly
19 the timing and accuracy of the input. At the same time, this process reduces
20 the need for ACS to re-key every order and relieves ACS of the burden of
21 entering an uneven flow of orders in a defined time frame. GCI would
22 more directly control this segment of the order process, gain efficiencies,
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1 assume responsibility for its own accuracy and timeliness, and have order
2 entry comparable to ACS. ACS gains efficiency.
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5 6. Q. How do you define OSS?

6 A. OSS in this case is an integrated arrangement of systems used to initiate the
7 essential steps of service installation, moves, adds, changes, and disconnects
8 on the ACS local exchange network. More specifically, it is the service
9 order, plant records, provisioning, and 911 systems.
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13 7. Q. How do you define access?

14 A. Access is the ability to directly input data into an integrated system in order
15 to query, add, or delete data related to service establishment, disconnection,
16 or modifications. The key word being "directly" - meaning without the
17 involvement of ACS.
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1 8. Q. Why is this important to GCI?

2 A. It allows GCI to create its own service requests in the sequence and at the
3 time of its choosing without ACS's involvement. In many cases this entry
4 will result in near real time service establishment.
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8 9. Q. Why is this important to ACS?

9 A. The most valuable issue for ACS is being relieved of the responsibility of
10 delivering a consistent level of service within a defined period of time,
11 while not having any influence on the variations in GCI's daily order
12 volume. Additionally, there are efficiencies gained by the elimination of
13 data entry.
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16
17 10. Q. If this change is good for both parties, why are we just talking about it
18 now?

19 A. It has been discussed for years. All of the systems employed are
20 complicated and difficult to integrate. We are now ready to take the final
21 steps and share the fruits of the effort. Realizing these are competitive
22 services and they are being provisioned on ACS's local exchange network,
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1 it is necessary to carefully guard both parties' interests. This takes time and
2 money.
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5 The Anchorage Telephone Market

6 11. Q. Has the level of compensation ACS receives for UNEs in the Anchorage
7 market caused financial problems for ACS?
8

9 A. Yes. During my career, the regulated telephone companies I have been
10 associated with have been able to maintain their rate of return within a
11 couple of percentage points of the level authorized by the Commission.
12 When low, it was satisfied with a rate case; when high, it was adjusted with
13 rate or depreciation adjustments. In the specific case of ACS, looking back,
14 ATU had a Rate of Return (ROR) of about 10%. ACS's return for the same
15 entity is now about ½ of 1%. This low return negatively affects many
16 aspects of the business including, but clearly not limited to, cash flow,
17 maintenance levels, customer service levels, and capital spending.
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1 12. Q. What deferred maintenance have you noticed?

2 A. The effect is substantial and compounding. Being physical in nature, plant
3 must be monitored, maintained, and upgraded. Presently, ACS is not
4 adequately doing enough of any of the three. ACS does not replace
5 defective or aged plant; it does not upgrade switches as frequently as it
6 should; and it does not do substantial preventative maintenance. ACS just
7 cannot afford to adequately maintain and enhance the network. These are
8 but a few examples. The greatest concern for me is the compounding
9 nature of the situation. Not unlike the human body, a network becomes
10 more and more difficult to restore as it deteriorates. The longer it
11 deteriorates, the more money and time it takes to restore its health.
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17 13. Q. What about customer service?

18 A. ACS clearly needs more resources in this area. However, because of the
19 expense involved ACS cannot afford them. So like the network discussion
20 above, ACS has a negatively compounding situation. As service levels
21 decrease, customers look for alternatives, with price being only one factor.
22 Over the years, I have witnessed many people choosing service over price.
23
24 However, without good service there is not much to compete with.
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3 14. Q. How would you characterize the state of competition?

4 A. I have managed companies with various levels of competition.
5
6 Additionally, because of interest and relationships, I had closely monitored
7 the RBOCs and GTE. I have never seen anything approaching what ACS
8 is faced with in Anchorage. There is nothing wrong with fair competition.
9 But ACS is not being allowed to compete. As documented in the testimony
10 of other ACS witnesses (e.g., David Blessing, Thomas Meade, and William
11 Wilks), ACS is having to sell UNEs to its competitors for less than it costs
12 to provide those network elements to itself. As a result, ACS has been
13 sucked into a downward slide that results in a lower level of service than it
14 would like to be able to provide. This worsens ACS's competitive position
15 in the marketplace and harms its ability to compete. Because of this
16 arrangement, GCI is able to pick and choose between buying UNEs, buying
17 wholesale, or using its own system. Plus, GCI has the luxury of targeting
18 only those areas where it thinks it can earn the most money. ACS, on the
19 other hand, is required to provide service to everyone. GCI is required to
20 maintain none of the network; ACS is required to maintain it all. GCI can
21 walk away from ACS's plant, or any part of it, at any time without having
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1 to worry about losing any investment whatsoever. ACS's investment has
2 to be paid with a shrinking customer base and rising labor costs. Unless this
3 trend changes, ACS will be left with that part of the market that is left over.
4 It will not be competitive and the network will continue to deteriorate. This
5 will harm the consumers as much as anyone else. I have argued for years
6 that the best way to promote competition is through properly set UNE rates
7 that replicate the cost of building new facilities. Such rates will drive
8 alternative networks. What we have proven in Anchorage is that artificially
9 low prices create artificial competition which in turn does not give the
10 customer real choice.
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16 15. Q. Are you advocating going back to the days of regulated monopolies?

17 A. No. However, in order to maintain a viable business, ACS will have to be
18 able to earn something more realistic for the sale of its UNEs. Its lack of
19 cash flow already is being felt in the capital markets. According to David
20 Blessing's testimony, ACS had to pay 10.5 percent interest in its recent debt
21 restructuring, even though this is a time of historically low interest rates.
22 Yet GCI earns more money than ACS does, has much lower regulatory
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1 restraint, is free to invest where it chooses and not to invest when it
2 chooses, and has almost half the market.
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5 16. Q. What is your concern for consumers?

6 A. If GCI does what it says it is going to do and in fact moves onto its own
7 unregulated facilities, the problem for the customer and ACS gets much
8 more severe. The customer is left with a choice of going onto an
9 unregulated system and paying whatever GCI chooses to charge, or signing
10 up for service on ACS's degraded network; a network that is more difficult
11 to maintain and upgrade as a result of the fleeing capital and vacant plant.
12 This is neither good customer service nor helpful for consumer choice.
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1 17. Q. You have mentioned capital several times. Do underpriced UNEs
2 really affect ACS's capital spending?
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4 A. Yes. As noted earlier, the shortage of capital drives ACS to limit its capital
5 projects to those most important to network sustainability and customer
6 service. The limit on spending means lack of adequate network
7 maintenance and expansion.
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10 18. Q. Does this conclude your testimony?
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12 A. Yes.
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Exhibit L

STATE OF ALASKA

REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Mark K. Johnson, Chair
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In the Matter of the Petition of)
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MUNICIPALITY OF ANCHORAGE a/k/a ATU)
TELECOMMUNICATIONS for the Purpose of)
Instituting Local Exchange Competition)

REGULATORY COMMISSION OF ALASKA
Anchorage, Alaska

VOLUME X
PUBLIC HEARING

November 6th, 2003
8:30 o'clock a.m.

BEFORE: MARK K. JOHNSON, CHAIR, RCA

AND KATE GIARD, COMMISSIONER, RCA
JAMES S. STRANDBERG, COMMISSIONER, RCA
G. NANETTE THOMPSON, COMMISSIONER, RCA

APPEARANCES:

FOR GCI: MR. MARK MODEROW
MR. MARTIN M. WEINSTEIN
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FOR ACS: MR. DAVID H. SHOUP
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1 A Dana L. Tindall, T-i-n-d-a-l-l.

2 COURT REPORTER: Thank you.

3 CHAIR JOHNSON: Mr. Moderow.

4 MR. MODEROW: Thank you.

5 BY MR. MODEROW:

6 Q Dana, are you the Dana Tindall that filed prefiled
7 rebuttal testimony in this docket?

8 A I am.

9 Q And do you have that in front of you marked as Exhibit T-
10 46?

11 A I do.

12 Q And do you have any corrections or additions you feel have
13 to be made to that testimony?

14 A No.

15 MR. MODEROW: I yield the witness.

16 CHAIR JOHNSON: Mr. Shoup.

17 MR. SHOUP: Thank you, Mr. Chairman.

18 DANA TINDALL

19 testified as follows on:

20 CROSS EXAMINATION

21 BY MR. SHOUP:

22 Q Ms. Tindall, I want to ask you first about some of your
23 testimony. Do you agree that ACS is not dominant in this
24 retail market in Anchorage?

25 A Can you point me to a page?

1 Q Sure, your rebuttal page 9 line 25.

2 A Page 9 line 25?

3 Q Yes, ma'am.

4 A In the retail market?

5 Q Yes, ma'am.

6 A I think my testimony is that ACS is arguably not
7 dominant.....

8 Q Oh, arguably, no longer. Let me read it. Beginning on
9 line 24 you say in the retail market ACS has approximately
10 50 percent market share and is arguably no longer
11 dominant. Can you tell me since you draw a distinction
12 between arguably no longer dominant and no longer
13 dominant, what's the arguably mean?

14 A In a competitive market where you have two competitors
15 essentially at -- well, there's three, but let's take AT&T
16 out of the equation for a minute since it's totally
17 wholesale/resale, but in a competitive market where one
18 competitor is dependent on the other carrier's facilities
19 that's going to weigh -- in order to provide their
20 competitive service that is going to weigh into a judgment
21 on whether or not the carrier with the facilities that
22 must be used on whether or not they're dominant.

23 Q Well, I'm not talking about wholesale market. I'm talking
24 about the retail market only. I'm just trying to find out
25 why you said arguably.

1 A Yes, I understand that. The retail market in Alaska,
2 provision of retail services by GCI is dependent upon use
3 of ACS's network which they have control over. That gives
4 them a level of market power over and above that of GCI
5 which would make them arguably maybe not dominant. It's a
6 judgment call.

7 Q Okay. Well, let me ask you this, your testimony as I
8 understand it is ACS has market power because you're
9 leasing these units from them?

10 A Yes.

11 Q Okay. That doesn't seem to have stopped your growth here
12 on TRM-3, would you maintain that it has or it hasn't?

13 A I maintain we've managed to have impressive growth. I
14 can't tell whether or not it has -- how much it may have
15 impinged our growth because we don't have a situation
16 where they don't have control. And they certainly have
17 exercised control at times that had a negative impact on
18 our customer base and our ability to attain customers.

19 Q Would you.....

20 COURT REPORTER: Excuse me, Mr. Shoup, I've lost your
21 sound.

22 (Off record comments re microphone)

23 Q So even though you're saying ACS has done things to
24 inhibit your growth, is that your testimony?

25 A Yes.

1 Q Then how do you account for this trend line on TRM-3?

2 A You know, I went and talked to the FCC one time recently

3 -- well, in the last two years and I talked to one of the

4 staff members of Chairman Powell's office and he asked me

5 what I thought was a very pithy and relevant question on

6 that issue. And what he said is Ms. Tindall, are you so

7 good or are they so bad. And I said yes. I would say

8 that GCI is a good competitor. We focus on the customer.

9 We provide severe -- superior customer service. I would

10 ACS has not focused on the customer. ACS has focused on

11 the political and regulatory arena in trying to kill

12 competition rather than focusing on the customer. And I

13 would say that the single biggest factor in the Anchorage

14 retail market is ACS raising their rates 24 percent in the

15 face of competition.

16 Q Let me ask you this, if ACS has done so many things to

17 hurt competition and to inhibit GCI how do you account for

18 the fact that CLECs nationwide are at about 15 percent and

19 you're at about 45 percent, are the other ILECs just not

20 -- are they all just welcoming competition with open

21 arms.....

22 A I think.....

23 Qis that what you're saying?

24 A The other ILECs?

25 Q Yeah, the other ILECs outside.....

1 (Off record comments re microphone)

2 CHAIR JOHNSON: And, excuse me, Mr. Moderow, did you

3 have....

4 MR. MODEROW: No, I was just trying to instruct Dana to

5 wait on her answer until everything was hooked up.

6 CHAIR JOHNSON: Okay.

7 A I'm taking off my glasses so I can't see anymore.

8 CHAIR JOHNSON: I'm just trying to figure out where we.

9 Did you -- were you in the middle of you posing a question, Mr.

10 Shoup?

11 MR. SHOUP: I would rephrase it.

12 CHAIR JOHNSON: Okay. You may proceed, Mr. Shoup.

13 COURT REPORTER: Thank you.

14 MR. SHOUP: Thank you.

15 Q (By Mr. Shoup) Ms. Tindall, I guess what I'm trying to

16 find out is if ACS has been so effective inhibiting

17 competition how come you're at 45 in Anchorage and CLECs

18 nationwide are at 15 as TRM-2 tells us?

19 A First of all, ACS -- I -- what I think I testified is that

20 I can't tell how much they've impinged, but you know,

21 there certainly has been an effort at that. And -- and so

22 I can't really tell you how successful they've been. I do

23 think that in the Anchorage market GCI has some things

24 going for it that other competitors do not have in the

25 Lower 48. We have a lot of name brand recognition in this

1. market. We took on the incumbent long distance carrier.
2 We have the reputation of being a scrappy competitor. I
3 guess we've gone from scrappy to graceless now though.
4 Q And you're a scrappy competitor in all arenas, aren't you,
5 including this one?
6 A Yes, we -- we compete in all arenas. We have name brand
7 recognition. And -- and you know, I don't know in the low
8 -- we don't have a Bell Operating Company up here. And in
9 the Lower 48 there's a lot of entrenched loyalty to the
10 Bell Operating Companies that you just don't find in
11 Alaska. Alaskan consumers are much more independent,
12 moreover, you know, ACS is a new company. ACS is not the
13 long term company that ATU was. It's a new company, you
14 know, that is new to the market, so consumers, I don't
15 think, have the brand loyalty to the incumbent carrier
16 that they might have in the Lower 48.
17 Q Okay. Well, if ACS is arguably not dominant in the retail
18 arena, are they dominant and do they have market power in
19 the wholesale arena?
20 A In -- you mean in the provision of UNES?
21 Q Yeah, in the wholesale market, right.
22 A Yes, I do -- I believe they are.
23 Q Okay. And what do you define as market power?
24 A The ability to -- well, normally it's defined as the
25 ability to set and maintain prices.....

1 Q Right.

2 Ain the regulatory arena where your price is regulated

3 you're still considered dominant even though it's a

4 regulated price, but because they have the only facility

5 at this time that must be used to provide service and

6 there is no competition for the provision of UNEs they are

7 dominant.

8 Q They're dominant but they don't affect prices 'cause

9 prices are set in this room?

10 A I think they probably have a big impact on price. I think

11 they're in here arguing for 28 bucks a loop.

12 Q No, I understand that. What I'm asking is a slightly

13 different question. They can't set the price at the

14 retail level, can they? ACS can't.

15 A At the retail level?

16 Q I'm sorry, at the wholesale level. At what we're talking

17 about today that's why we're here, isn't it?

18 A In a regulated market.....

19 Q Yeah.

20 Awhere your rate bases are set by a commission that's

21 not the measure of dominance.

22 Q Right, so they're not arguably dominant in the retail

23 arena and their prices are being set for them at the

24 wholesale level so they really don't have market power at

25 the wholesale level either, do they.....

1 A Wrong. I disagree with that.

2 Q Okay. All right. Let me ask you about your testimony
3 about cable telephony, I think you said 10,000 on to your
4 cable system next year?

5 A That is our plan.

6 Q That's your plan, okay. So -- and then your plan after
7 that is 20,000 the next year, 30,000 the next year, do I
8 have that right?

9 A It's 10,000 next year and it's a five year plan. I'm not
10 sure of the exact number per year.

11 Q You're the vice president for regulatory affairs for GCI,
12 do I have that right?

13 A Senior vice president.

14 Q Senior vice president. Sorry. For regulatory affairs for
15 GCI, do I have that right?

16 A Well, it can get a little bit longer depending upon if I
17 need it to, but that's good enough.

18 Q And you don't know what the plans are for cable telephony?

19 A I don't think it was in my testimony and I don't have it
20 right offhand.

21 Q Okay. Well, we looked at TR- -- sorry, DCB-6 yesterday
22 which is the Jefferies stock report?

23 A Uh-hum.

24 Q And according to Jefferies in conversations apparently
25 with GCI at page 9, let me just read it to you.....

1 CHAIR JOHNSON: It's possible I just saw that flash that
2 the bulb may have been popped.

3 MR. SHOUP: Ah-ha.

4 CHAIR JOHNSON: That may not work in the future just so
5 you know until we get that fixed.

6 Q What Jefferies says is GCI expects to add 10- -- and this
7 is page 9, GCI expects to add 10,000 cable telephony
8 subscribers in 2004, another 20,000 in 2005, and a full
9 run rate of 30,000 starting in 2006. We believe the
10 company can meet or even exceed these subscriber targets.
11 As the senior vice president is that something you don't
12 know?

13 MR. MODEROW: I'd just ask the question does she know that
14 Jefferies said that. Does she know that somebody in the
15 company said that to Jefferies, does she.....

16 MR. SHOUP: Oh, I'm happy to rephrase that question.

17 CHAIR JOHNSON: Yeah, just rephrase the question, Mr.
18 Shoup.

19 Q Ma'am, is that not something that you know that GCI told
20 Jefferies?

21 A I don't know whether or not GCI told Jefferies that.

22 Q Do you know whether Ron Duncan has told any stock raters
23 that very same thing?

24 A I don't know.

25 Q Okay. And you've seen the exhibit where he said

1 essentially the same thing?

2 A No, which exhibit is that?

3 Q Okay, that's all right, I'll find it for you in just a

4 second. I just want to ask you the basis of your

5 knowledge. You're telling us that you don't know that the

6 head of your company told any stock raters that that was

7 your plan, is that correct?

8 A I don't know for a fact that. Ron goes off and talks to

9 stock analysts all the time and doesn't tell us what he's

10 saying.

11 Q Okay. All right. Do you agree or disagree that you're

12 adding about 12,000 customers annually?

13 A I -- I don't have those numbers in front of me.

14 Q You don't? All right. Let me read to you again from this

15 Jefferies stock analysis, it's the same paragraph on page

16 9, GCI already adds 12,000 local subscribers annually with

17 only minimal advertising for local service. Do you have

18 any way of telling us whether that's untrue?

19 A In my experience of stock analysts report they can take a

20 few facts and blow it up and make you look real good or

21 they can make (sic) a few facts and make you look real

22 bad. We're kind of -- you know, I can't tell whether

23 that's something GCI gave them or if that's something they

24 blew up. I can't tell you.

25 Q Okay. So I take it then, you have no independent

1 knowledge that you would have gained in your job as senior
2 vice president to know exactly what GCI's plans are for
3 cable telephony, is that correct?

4 A GCI's plan is to roll out cable telephony over five years
5 beginning with a goal.....

6 Q Uh-hum.

7 Aof 10,000 customers in 2004.

8 CHAIR JOHNSON: Mr. Shoup, just for a moment, there was a
9 question, are you going to make further reference to the
10 Jefferies stock report?

11 MR. SHOUP: I am, Mr. Chairman.

12 CHAIR JOHNSON: Okay. And could you just give us the
13 number of that exhibit for the benefit of the Commission?

14 MR. SHOUP: Sorry. It is DCB-6.

15 CHAIR JOHNSON: Thank you.

16 MR. SHOUP: Uh-hum.

17 CHAIR JOHNSON: We appreciate that.

18 MR. SHOUP: I apologize. I should have done that earlier.

19 Q Ms. Tindall, in TRM-9 which is an event transcript
20 produced by Fair Disclosure of Financial Network dated
21 July 31st, 2003, at 2:00 p.m. Mr. Duncan, who is your CEO,
22 right?

23 A Yes.

24 Q Is quoted as saying, and it's not a quote, it's a
25 paragraph but it says -- it's under the name Mr. Ronald

1 Duncan and it appears to be a conference call, our goal is
2 to roll somewhere between eight and 12,000 digital local
3 phone service loops next year and depending upon the
4 satisfaction with that, probably double that deployment to
5 20,000 loops into 30,000. And he's talking about here a
6 deployment of cable telephony. Now do you deal with Mr.
7 Duncan on a daily basis?

8 A I deal with Mr. Duncan as much as he's around, but he's
9 not around on a daily basis.

10 Q Okay. Who do you report to at the company?

11 A Mr. Duncan.

12 Q So he's your direct superior?

13 A Yeah.

14 Q Does he ever talk to you about cable telephony plans?

15 A From time to time.

16 Q And he hasn't told you what the schedule is?

17 A We have a cable telephony group in GCI that is working on
18 plans for cable telephony on a daily basis. I don't sit
19 in on that group.....

20 Q Okay.

21 Aand so these numbers change all the time.

22 Q Okay. Well, let's assume your -- the 12,000 here in DCB-6
23 page 9 is correct. That's about 5 percent of the market,
24 right, give or take.....

25 A Uh-hum.

1 Qis that right?

2 A Well, I don't -- I'm not doing the math.....

3 Q Okay. Well, let's just use the number then.

4 A Sure.

5 Q That would be 36,000 in three years?

6 A Sure.

7 Q Okay. 36,000 in three years in addition to your 45

8 percent now, where does that take you?

9 A That was in addition that's what we're growing, the lines

10 we're growing in addition?

11 Q They're saying you're adding 12,000 retail customers a

12 year without -- with minimal advertising. What I'm trying

13 to figure out is.....

14 MR. MODEROW: And I would clarify they, is that

15 Jefferies.....

16 MR. SHOUP: It is.

17 MR. MODEROW:that's saying this?

18 MR. SHOUP: It is. I'm quoting from DCB-6 page 9.

19 A Is this also the quote you quoted? I thought the Duncan

20 quote was for cable telephony, not how many retail

21 customers we're adding.

22 Q That is correct.

23 A Okay.

24 Q I'm on a different subject now.

25 A Okay.

1 Q Where in DCB-9 page 6 according to Jefferies it says GCI
2 already adds 12,000 local subscribers annually with only
3 minimal advertising for local service, that's the direct
4 quote.

5 A Right.

6 Q So if you assume that, if you assume they're right about
7 that, where does that take you in terms of market share in
8 three years, if you're at 44.4 as of the end of last June
9 and you're adding 12,000 a year with minimal advertising,
10 where does that take you for market share by the end of
11 2006?

12 A Well, first of all, I have a hard time with your
13 assumption because I don't think it refers to a forward
14 looking growth trend. I would be very surprised if GCI
15 continued adding customers at that rate.

16 Q What's the rate now?

17 A I don't know.

18 Q Do you have any idea?

19 A Well, I think I could figure it out from your chart.

20 Q No, I'm not asking that. Do you have any knowledge being
21 a senior vice president of GCI how fast your growing
22 market share today in the retail market in Anchorage,
23 Alaska?

24 A I don't have those exact numbers with me.

25 Q Is it positive or negative?

1 A It is positive.

2 Q You don't -- you just don't know what it is?

3 A No.

4 Q Who would have those numbers exactly? Who in GCI.....

5 A Gina Boreland.

6 Q I'm sorry?

7 A Gina Boreland.

8 Q Gina Boreland, all right.

9 MR. MODEROW: Your Honor, at some point there's got to be

10 a relevance objection here. The growing market share isn't

11 really.....

12 CHAIR JOHNSON: Well.....

13 MR. MODEROW:on the retail level isn't an issue

14 here.

15 CHAIR JOHNSON: Mr. Moderow, I want you to -- if you have

16 an objection based on relevance I want you to state it. Are

17 you making one now?

18 MR. MODEROW: The issue of retail market share as opposed

19 to market share on facilities are separate issues. Her

20 personal knowledge of a retail market share trend is not

21 relevant to any of the issues in this proceeding.

22 CHAIR JOHNSON: Mr. Shoup?

23 MR. MODEROW: And I let it go and I'll let it go for

24 awhile, but at some point it's irrelevant.

25 CHAIR JOHNSON: Okay. Mr. Shoup.

1 MR. SHOUP: Mr. Chairman, I believe market share is
2 relevant to this entire proceeding. We're talking about cable
3 telephony adjustments. We're talking about whether we should
4 or we shouldn't do that. We're talking about whether it has an
5 impact on weighted average cost of capital on depreciation and
6 on and on and on. I believe it's quite relevant.

7 CHAIR JOHNSON: Okay. Mr. Shoup, I'm going to allow this
8 for the time being but I want to make sure that you're not just
9 replowing ground that we've already gone over.

10 MR. SHOUP: Yes, Mr. Chairman. In fact.....

11 CHAIR JOHNSON: I think.....

12 MR. SHOUP:I had at that point ended that line on
13 this point.

14 CHAIR JOHNSON: Thank you.

15 Q Is it true, ma'am, and I'm just --- I'm not talking about
16 market share or percentage of growth or anything like
17 that, but I just wanted to ask you a couple of questions
18 about your cable system now. Is it true that it passes by
19 98 percent of the homes in Anchorage?

20 A Is that in my testimony?

21 Q Do you have any independent knowledge either way?

22 A I think what I said in my testimony that our cable system
23 will pass 98 percent of the homes in Anchorage. I don't
24 think it passes 98 percent of the homes today.

25 Q Okay. And do you know when it'll do that?

1 A I don't have a date for you on that.

2 Q Okay. All right. But that is your plan, today that's

3 GCI's plan to take your cable past 98 percent of the homes

4 in Anchorage?

5 A Yes.

6 Q All right. Okay. And after you do that and after you've

7 moved on to your cable system are you asking still to be

8 able to lease loops from ACS?

9 A I think it would be a good idea for loops to continue to

10 be available for good reasons. Not all customers may want

11 to switch. They may not want to cut the cord as we say

12 and go to cable. There are that 2 percent that, you know,

13 the home's not in going to go by -- the cable network is

14 not going to go by and you wouldn't want to deny them

15 competitive choice. But I also think that that is an

16 issue that be the subject of an impairment proceeding.

17 Q Let me ask you this, what would GCI do -- and this is in

18 reference to your testimony, what would GCI's response be

19 if the UNE loop rate went up dramatically, what would you

20 do?

21 A What is dramatically?

22 Q I don't know, that's the word you used in your testimony

23 that's why I'm asking you the question.

24 A Well, there's a range of things that happen as the UNE

25 loop rates go up. You know, at some point the UNE rate

1 may go up high enough that it has an impact -- well, let
2 me step back a sec.

3 Q Uh-hum.

4 A If the UNE rate loop goes up GCI will speed up its cable
5 telephony deployment, however, if it goes up high enough
6 it may impact the cash we have able to build out cable
7 telephony. And certainly if it goes up into the range
8 that ACS is proposing as their loop rate, margins will be
9 so negative in the local market that we would have to
10 seriously ask ourselves if we're able to stay as a
11 competitor in the local market.

12 Q All right. When you used that word -- well, let me ask
13 you this, you said if it went up too high you may not be
14 able to continue to deploy cable, is that right?

15 A It's possible.

16 Q So you're using the revenue from the loop rates you're
17 paying now to build out your cable system?

18 A We don't get revenue from the loop rate.

19 Q You don't get any difference between what you pay ACS and
20 what you charge your customers?

21 A As a company there's cash flow. I don't think -- I don't
22 have it in front of me, but the net income on local if any
23 -- you know, I'm not even sure if it's positive.

24 Q Okay. Well, let me just ask you this then, when you said
25 no page 3 line 23 of your testimony, this is -- and I

1 think you only filed rebuttal, raising UNE rates
2 dramatically would compel GCI to speed up the investment
3 and deployment of its cable telephony network.

4 A Would you give me that reference again?

5 Q Sure, page 3 line.....

6 A Oh, page 3.

7 Q23 and line 24.

8 A Right. And then I say if, however, UNEs were priced so
9 high as to be economically unattainable.....

10 Q Uh-hum.

11 AGCI's ability to compete successfully and provide
12 effective competition would be adversely impacted.

13 Q Uh-hum.

14 A At the extreme if UNE rates were excessively raised GCI
15 possibly would have to reconsider its competitive entry
16 strategy due to high overall costs.

17 Q Sure. What I'm asking you now is when you use the word
18 dramatically what number were you thinking about?

19 A I don't have any numbers and probably for FCC reasons I
20 can't give you any numbers today, but I'm telling you that
21 there is a range of numbers in between the current UNE
22 price and the 28 dollar price where these different
23 effects may occur.

24 Q So would you say a 10 dollar increase from the current
25 rate would be a dramatic increase or an excessive

1 increase?

2 A As an officer of the company I can't give you information
3 we haven't given the market.

4 Q No, ma'am, I'm not asking you that. I'm asking about your
5 use of the word dramatically in your testimony here. Is
6 it your testimony you didn't know -- you didn't have a
7 range of numbers in mind when you used that word?

8 A It is somewhere between the 14.92 that the rate is set at
9 today and the \$28 that ACS is proposing.

10 Q Based on your testimony is it true that you do have the
11 economic ability to deploy your cable system faster if you
12 want to?

13 A Depending on what the UNE loop rate's at.

14 Q Okay. And do you think having a lot of customers, you
15 know, migrating your customers onto your cable system is a
16 bad thing or a good thing?

17 A I think it's a good thing.

18 Q In fact, it creates facilities -- true facilities based
19 competition, doesn't it?

20 A That's right.

21 Q So according to your testimony if there was a dramatic
22 rise you'd speed up your investment and go there sooner,
23 what's wrong with that? Isn't that what the Act is
24 supposed to do?

25 A It -- the purpose of UNE TELRIC rates is to send the

1 correct signal. If we speed up deployment of our cable
2 telephony network because UNE prices are priced
3 inappropriately high and not sending the correct signal
4 then that is not in the public interest because you're
5 encouraging essentially inefficient entry.

6 Q Well, we're not talking about entry here, are we?
7 You've.....

8 A Entry being.....
9 Qgot entry.....

10 Athe building of facility.

11 Q No, ma'am, I understand. But we're not talking about your
12 entry into the market, are we, you're already in this
13 market with a vengeance, you've got half of it, right?
14 There are no barriers to entry regarding UNE loop rates
15 today, are there?

16 A In economic terms building facility is a form of entry.

17 Q No, ma'am, I understand. I understand what you're saying.

18 A I'm sorry, I didn't think.....

19 Q Please follow the question.

20 Ayou did.

21 Q We're not -- you and I here we're not talking about GCI
22 having barriers to entry to this market, are we?

23 A We're talking about GCI's entry into the market on a
24 facilities basis by building its own facilities.

25 Q Okay. And your entry into the market today, I think

1 you've testified so far is through the UNE loop
2 proceeding.....

3 A Correct.

4 Q All right.

5 A Correct.

6 Q Now you testified, I think, that ACS continues to have the
7 ability to win back customers lost to GCI, right?

8 A Yes.

9 Q And what is ACS's ability to do that? What do you
10 envision it doing to do that?

11 A Well, as I listened to the new CEO Liane Pelletier, on the
12 shareholder investor conference call she has a lot of
13 plans to win back customers. As a matter of fact, she's
14 coined a phrase for it called getting share of wallet.

15 Q Uh-hum.

16 A It was kind of an interesting phrase I thought, but she
17 says that she's no long- -- she's going to focus on the
18 customers, that so far ACS's focused on the political
19 arena and the regulatory arena and she's going to change
20 things. She's going to focus on customers. So I think
21 with the proper focus on customers ACS could win back
22 customers.

23 Q You do?

24 A I do.

25 Q It hasn't shown up yet, has it?

1 A Well, she just started.

2 Q No, ma'am, I understand, but it hasn't shown up yet, has
3 it? TRM-3 here, it's not there yet, is it?

4 A I don't think the past CEO's, Chuck Robinson's strategy
5 was to focus on customers, which is why you wouldn't see
6 it in that graph.....

7 Q Okay.

8 Abut he has retired now and according to Liane
9 Pelletier they are going to focus on customers.

10 Q So do you think her stating that they're going to now
11 focus on customers is any less speculative than Dr. Mercer
12 stating that your plan to move to cable telephony is just
13 in the future and it's speculative, too?

14 A You know, I think they have as good a chance of winning
15 back customers as we do of taking them away. I think
16 they're probably equivalent, consistent, comparable.

17 Q Let me ask you this, would winning back customers involved
18 retail costs? Would that be a retail cost to ACS?

19 A Would they have to advertise?

20 Q Yeah, would it be a retail cost as far as these.....

21 A Well.....

22 Qproceedings are concerned?

23 A I -- you know, I don't know their cost structure well
24 enough. I don't know if they had the spare capacity to
25 focus on customers without adding people on. I don't

1 know.

2 Q Are you aware that Mr. Cabe said in his analysis in this
3 case that retail costs -- his assumption for his analysis
4 was that retail costs cease -- quote, sorry, automatically
5 cease when a customer terminates service, closed quote.
6 And he proceeded with his analysis on that basis? Are you
7 aware of that?

8 A No.

9 Q Okay. Do you think that the interim rates so far have
10 placed UNE loop prices about where Congress and the FCC
11 intended?

12 A I think that if you looked at the end results of the
13 market that you could possibly make that assumption. It'd
14 be a much more likely determination than any of the others
15 I've had tossed out. You might be determine that they're
16 a bit high because you are getting competitors building
17 out facilities which I guess there's been a lot of
18 testimony on whether or not that's efficient or not. But
19 basically competition is where you've got, you know,
20 competitors building out facilities. I don't think that
21 you could argue in any way, shape, or form that it's too
22 low.....

23 Q Okay.

24 Abecause GCI wouldn't be building any facilities if it
25 was too low.

1 Q Okay. So let me ask you, when you testified on page 9
2 line 9 through line 12 what the evidence actually
3 indicates is that Anchorage UNEs have been priced about
4 where Congress and the FCC intended. There has been
5 successful entry into the market and GCI is investing in
6 its own network. Were you referring in there to the
7 interim rates?

8 A The 14.92 rate?

9 Q Yes, ma'am, the interim rates in this proceeding, the
10 13.80 and the 14.92? Is that what you were talking about?

11 A Yes, although the 13.85 was a legal rate, not an interim
12 rate in terms of.....

13 Q Right, but the amount GCI has been paying for UNEs has
14 been in the 13, 14.92 range, right?

15 A Right.....

16 Q Okay.

17 Ahowever, since then a lot of factors have changed
18 which I think Dr. Mercer and others reflect in their.....

19 Q Right, no.....

20 Atestimony.

21 QI understand. But that's what you were talking about
22 here where you said they've been priced about where
23 Congress and the FCC intended?

24 A Yeah, if you want to look at the end result.

25 Q Okay. And so now what you're saying is even though we've

1 got half the market it's about where they intended, you
2 want to go to less than half of the interim rate, 7.08, is
3 that right?

4 A Well, like I said if anything you might conclude that
5 they're a little high because we are planning to build out
6 our market. And as our, you know, engineers sharpened
7 their pencil points and looked at it closely they did
8 conclude it was too high. Cost of capital has come down,
9 interest rates have come down, they sharpened their
10 pencils so.....

11 Q Yeah, and we'll talk to them about that when they come
12 onto the witness stand, but what I want to ask you is it's
13 true, isn't it, that even though your testimony is it's
14 about where Congress and the FCC intended you want to go
15 to half of the current interim rate -- or less than half,
16 don't you, that's your proposal here today?

17 A 7.08 being slightly than half of 14.92, that's right.

18 Q All right. And if it were to go down that far you'd have
19 more cash to use to build your cable system, wouldn't you?

20 A Well, I guess if it went down that far we'd have to think
21 about our cable system now, wouldn't we? I don't --
22 I.....

23 Q Why would that be?

24 A Because.....

25 Q Why would you have to think about your cable system if it

1 went to 7.08?

2 A UNE rates are an economic signal. If it gets down to the
3 point where we're indifferent we would have to look at it.
4 We.....

5 Q If it.....

6 A would have to -- we would just have to look at it.
7 I'm not saying what we would do, but if it gets down to
8 the rate where I believe a TELRIC rate makes a competitive
9 entrance somewhat indifferent between building versus
10 leasing we would have to look at it. Now having said
11 that, I do believe we would still build out our cable
12 telephony plan because we have a lot of non-price reasons
13 for building a cable telephony plant.

14 Q And your cable telephony plant will be monopolistic in the
15 sense of you'll be the only cable plant in town?

16 A No, those aren't our non-price reasons. Our non-price
17 reasons are for ACS to no longer have control over our
18 customer base by their network and for business certainty.
19 It's difficult to keep going through proceedings and
20 through political proceedings where ACS is trying to
21 affect the rates we pay and we have no business certainty.

22 Q But you don't disagree that you're the only cable operator
23 in this town, do you?

24 A We are the only cable television provider in this town,
25 however, I do disagree if you're trying to imply that

1 that's some sort of a monopoly. I do disagree with that.

2 Q Okay. I'm not -- I'm not -- I don't mean anything
3 negative by the term, I'm just trying to point out and I
4 think you agree, don't you, that you're the only game in
5 town when it comes to cable?

6 A I'm not sure why that matters. I guess I'm not following
7 you.

8 Q Well, you're the only game in town when it comes to cable,
9 therefore, you'd be the only game in town when it comes to
10 cable telephony as well on that type of system, wouldn't
11 you?

12 A I guess.

13 Q Okay. I just want to follow up just briefly with
14 something you said. You said if it went to 7.08 you'd
15 have to rethink to going to cable telephony, but at the
16 same time you're saying if it went up dramatically you'd
17 speed up migration to cable telephony. That is your
18 position today, isn't it? That is your testimony, isn't
19 it?

20 A My testimony is that UNE rates are supposed to send
21 pricing signals. Cable telephony is a work in progress.
22 We are constantly sharpening our pencils, constantly
23 working to get those costs down. It is our plan to deploy
24 cable telephony if we can do it cheaper. At new UNE rates
25 we would -- as a -- as a business looking to its

1 shareholders we would have to ask ourselves that question.
2 I don't know what that answer is, Mr. Shoup.

3 Q Okay. All that you did though know, from your prefiled --
4 or all that we knew from your prefiled is if it went up
5 dramatically you'd move faster over there and now you're
6 telling us if it goes down you may not move as fast,
7 right?

8 A As a matter of an economic pricing signal.....

9 Q Right. And there -- but we agree, don't we, that your
10 cable telephony system, a true facilities based
11 competition type system is a goal of the '96 Act, the
12 Telecom Act, don't we?

13 A Our -- GCI's cable telephony system is a goal of the '96
14 Act?

15 Q No, true facilities based competition as opposed to people
16 leasing UNEs from an ILEC, building out own plant, having
17 true facilities based competition is a goal of this entire
18 regulatory scheme, isn't it?

19 A I don't know that I necessarily agree with that. I think
20 that the goal of the Act is to have efficient entry. And
21 it is not a goal of the Act to have new facilities built
22 that are not efficient. And so a goal would be to have
23 efficient entry in the terms of facilities based entry.

24 Q And you -- would your cable telephony system be efficient
25 or inefficient?

1 A If UNE rates are priced correctly in this proceeding at
2 TELRIC rates and we can do it cheaper by building our
3 cable telephony plant.....

4 Q Uh-hum.

5 Ait would be efficient entry.

6 Q And do you maintain that the reason you're building it out
7 now is because it is cheaper?

8 A We believe that we can do it cheaper. We also have a
9 number of non-price reasons for wanting to build it out.

10 Q I showed Dr. Mercer yesterday a page from TRM-17 which is
11 a Blaylock stock analysis that said you all were planning
12 to buy a cable system outside of Alaska if you could find
13 the right deal. Is that something that you know about or
14 is that something you don't know about?

15 A I think what you said is we're planning -- we've got one
16 specifically in mind. We are looking for outside
17 opportunities all the time. We don't have one
18 specifically in mind.

19 Q No, no, I -- and I didn't mean to imply that you did. I
20 think what that exhibit said was you're looking for an
21 opportunity to do that, you.....

22 A Sure.

23 Qdidn't have one targeted yet, but you were looking
24 for another cable telephony system -- or another cable
25 system outside.....

Exhibit M

R.C.A.

03 SEP 29 PM 3:07

STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Mark K. Johnson, Chair
Kate Giard
Dave Harbour
James S. Strandberg
G. Nanette Thompson

In the Matter of the Petition by GCI)
COMMUNICATIONS CORP. d/b/a GENERAL)
COMMUNICATION, INC., and d/b/a GCI for)
Arbitration under Section 252 of the)
Telecommunications Act of 1996 with the)
MUNICIPALITY OF ANCHORAGE d/b/a) U-96-89
ANCHORAGE TELEPHONE UTILITY a/k/a ATU)
TELECOMMUNICATIONS for the Purpose of)
Instituting Local Exchange Competition)

PREFILED OPPOSITION TESTIMONY OF WILLIAM J. WILKS
ON BEHALF OF ACS OF ANCHORAGE

1. Q. Did you file direct testimony in this Docket?

A. Yes. I submitted prefiled direct testimony dated August 29, 2003.

2. Q. What is the purpose of this prefiled testimony?

A. First, I will respond to GCI August 29, 2003 filing in this docket.
Second, I will show that GCI would be unable to build a telephone
network in Anchorage, Alaska at either the investment or the rate GCI

1 proposes in this proceeding. GCI's actual cost to build a telephone
2 network similar to ACS' network is above what ACS is proposing to
3 charge GCI to lease its facilities. ACS' cost models closely match what
4 it actually costs GCI to place a network today.
5

6
7
8 **GCI'S UNE Models and Position**

9
10 3. Q. Briefly summarize GCI's UNE loop models and its
11 recommendations.

12 A. GCI filed two UNE loop models (GCI 7.2-G and a GCI modified FCC
13 model). The GCI 7.2-G is a proposed redesign of the ACS' 7.2 model.
14 The rate produced by GCI 7.2-G is \$4.84 per loop per month. GCI also
15 filed a modified version of the FCC model. The rate produced by that
16 model is \$7.08 per loop per month.
17

18
19
20 4. Q. What results do you get from GCI's models if you use ACS cost
21 inputs?

22 A. I ran both the GCI 7.2-G and modified FCC model using ACS' proposed
23 cost inputs. As can be seen in Exhibit WJW-7 and WJW-8, loading
24 ACS costs into both the GCI models changes the rates from \$4.84 and
25 \$7.08 to \$25.56 and \$24.53 respectively. ACS's two models filed
26

1 August 29, 2003 (ACS 7.2 and the FCC-SM model) using ACS' cost
2 inputs produced rates of \$25.88 and \$25.45 respectively. Therefore, as
3 shown in exhibit WJW-7 and WJW-8, using both of GCI's models but
4 substituting ACS cost inputs results in only a \$0.32 and \$0.92 difference
5 respectively in the rates. GCI's redesign of ACS 7.2 (its 7.2-G) had only
6 a \$0.32 impact on UNE loop rate. The significant issues in this
7 proceeding with respect to the UNE loop element are cost inputs.
8
9
10

11 5. Q. Have you compared the GCI cost inputs to ACS' cost inputs?
12

13 A. Yes. Many of the cost inputs proposed by GCI use either HAI default
14 inputs or give the impression of estimating costs in Alaska by applying a
15 factor to the HAI inputs, or use part of an ACS cost input, and without
16 any support reduce the rest. ACS' cost inputs represent company
17 specific costs based on multi-year contracts that have been competitively
18 bid. Therefore, the cost inputs used in ACS' cost models reflect
19 forward-looking costs in a competitive market in Anchorage, Alaska.
20 ACS' method is consistent with the FCC TELRIC rules. GCI's reliance
21 on HAI defaults is not. In the Verizon Virginia docket the FCC stated:
22 "When the Commission adopted nationwide inputs in the universal
23 service proceeding, it expressly cautioned that the use of state-specific
24
25
26

1 data may be more appropriate for use in determining UNE rates. The
2 purpose of this proceeding is to set UNE prices based on the forward-
3 looking cost of providing those UNEs, thus Virginia-specific data are
4 better suited to this purpose"¹. GCI's cost inputs based on either HAI
5 defaults or HAI adjusted defaults do not reflect Alaska-specific costs and
6 do not comply with the FCC's TELRIC rules.
7
8
9

10 6. Q. What investment per loop results from the models?

11 A. Exhibit WIW-9 shows the investment produced by GCI's two models
12 and ACS' two models (ACS 7.2 and the RCA modified FCC-SM
13 model). The investment per UNE loop produced by ACS 7.2 and the
14 FCC-SM model is \$1,027 and \$1,069 respectively. These same models
15 apply annual charge factors against this investment of 30% and 29%
16 respectively. GCI's 7.2-G and its modified FCC model produce an
17 investment per loop of \$385 and \$552 respectively, and annual charge
18 factors of 15%.
19
20
21
22

23 7. Q. How do these figures compare with real-world experiences?
24
25
26

¹ CC Docket No. 00-218 paragraph 189.

1 A. I have already addressed the Aurora subdivision in my earlier testimony.
2 GCI spent \$499,391 to construct a telephone network in the
3 Aurora/Boniface subdivision. The actual investment came to over
4 \$1,283 per loop. Aurora is similar to ACS' network in that it utilizes
5 copper in the distribution portion of the network and fiber in the feeder
6 portion of the network. The RCA modified FCC model produced a UNE
7 loop investment of \$908. The ACS 7.2 model produces a loop
8 investment of \$1,027. I have also placed GCI's results from its two
9 UNE loop models in Exhibit WJW-10 for comparison. In Exhibit WJW-
10 10, GCI's two proposed models produce investment costs per loop of
11 \$309 and \$462 for the Aurora subdivision. GCI's models understated
12 the actual investment by 76% and 64% respectively. The rate necessary
13 to recover the actual investment of \$1,283 for Aurora/Boniface
14 subdivision would be \$32.33 per loop per month. However, using the
15 GCI proposed investment and annual charge factors in both its 7.2-G and
16 modified FCC-SM model produces rates of \$3.89 and \$5.93
17 respectively.
18
19
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23
24

25 8. Q. What about more recent GCI construction?
26

1 Model GCI 7.2-G and the GCI modified FCC-SM produce total
2 investment costs of \$18,471 and \$26,482, or 17% and 25% of the actual
3 investment costs respectively. ACS' FCC-SM model populated with its
4 forward-looking cost inputs produced investment costs of \$107,341, just
5 a few dollars higher than what it actually cost GCI to place these loop
6 facilities. The difference is less than one percent. Assuming we use the
7 actual investment but the annual charge factors GCI proposes to use in
8 this proceeding exhibit WJW-11 shows that the rate would have to be
9 over \$28 for either of GCI's models to cover the actual investment costs
10 of Dallas, significantly more than the \$4.84 and \$7.08 rates proposed by
11 GCI.
12
13
14
15
16

17 9. Q. Based on actual experience, is the interim rate of \$14.92 reasonable
18 as a permanent rate?

19 A. No. The RCA-modified FCC-SM model was the one the RCA relied
20 upon to set the current interim \$14.92 UNE loop rate in Anchorage.
21 That results in an investment level of \$619 per loop. However, the
22 investment per loop for Aurora was \$1,283 and for Dallas was \$2,228.
23 The \$14.92 rate resulted from a model run performed by GCI. ACS later
24 discovered that manipulations were performed to the model such that it
25
26

1 did not comply with earlier decisions rendered by the RCA. ACS
2 informed the RCA that had the model been run as GCI represented the
3 rate would have been \$16.26, not \$14.92. The RCA relied upon the
4 representations of GCI and approved an interim rate of \$14.92.
5
6

7
8 **10. Q. Has GCI changed its position on these issues?**

9 A. Yes. GCI's position has gone from \$14.92 to \$7.08. This represents a 52%
10 decrease. To get there, GCI used either HAI default cost inputs or HAI
11 default inputs that were modified, or use part of an ACS cost input, and
12 without any support reduce the rest. The result is the investment drops
13 greatly from the \$619 per loop. GCI also underestimated expenses as
14 shown in Exhibit WJW-12. Capital costs go from 15.23% to 11.08%,
15 maintenance costs go from 2.55% to 1.1%, and operating overheads go from
16 \$4.44 per loop to \$1.48 per loop.
17

18 GCI proposed a UNE loop rate of \$13.81 in November, 2002, based on
19 FCC-SM model run then that computed common support costs at \$3.20 per
20 loop. Doctor Mercer indicated then that \$3.20 per loop was a reasonable
21 amount of common support costs². On August 29, 2003 Doctor Mercer
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² See Mercer affidavit filed November 19, 2002 in Docket U-96-89 page 20.

1 proposed another method of computing common costs that produced a per
2 loop amount for common costs of \$0.66, a 79% decrease
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5 11. Q. Does this conclude your testimony?

6 A. Yes.
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